



# National State Auditors Association

July 25, 2008

Martin Guindon, Auditor General  
Department of Legislative Audit  
427 South Chapelle  
C/O 500 East Capitol  
Pierre, South Dakota 57501-5070

Dear Mr. Guindon:

We have reviewed the system of quality control of the South Dakota Department of Legislative Audit (the Office) in effect for the period June 1, 2007 through May 31, 2008. A system of quality control encompasses the office's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with government auditing standards. The design of the system and compliance with it are the responsibility of the Office. Our responsibility is to express an opinion on the design of the system, and the Office's compliance with the system based on our review.

We conducted our review in accordance with the policies and procedures for external peer reviews established by the National State Auditors Association (NSAA). In performing our review, we obtained an understanding of the Office's system of quality control for engagements conducted in accordance with government auditing standards. In addition, we tested compliance with the Office's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the Office's policies and procedures on selected engagements. The engagements selected represented a reasonable cross-section of the Office's engagements conducted in accordance with government auditing standards. We believe that the procedures we performed provide a reasonable basis for our opinion.

Our review was based on selective tests; therefore it would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it. Also, there are inherent limitations in the effectiveness of any system of quality control; therefore noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the system of quality control of the South Dakota Department of Legislative Audit in effect for the period June 1, 2007 through May 31, 2008, has been suitably designed and was complied with during the period to provide reasonable assurance of conforming with government auditing standards.

As is customary in a peer review, we have issued a letter under this date that sets forth comments that were not considered to be of sufficient significance to affect the opinion expressed in this report.

Mark Ruether, Team Leader  
National State Auditors Association  
External Peer Review Team

Ronald D. Swanson, Concurring Reviewer  
National State Auditors Association  
External Peer Review Team



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Martin Guindon, Auditor General  
Department of Legislative Audit  
427 South Chapelle  
C/O 500 East Capitol  
Pierre, South Dakota 57501-5070

Dear Mr. Guindon:

We have reviewed the system of quality control of South Dakota Department of Legislative Audit (the Office) in effect for the period June 1, 2007 through May 31, 2008, and have issued our report thereon dated July 25, 2008. That report should be read in conjunction with the comments in this letter, which were considered in determining our opinion. The matters described below were not considered to be of sufficient significance to affect the opinion expressed in that report.

## Reporting Standards

### Comment

1. AICPA standards (U.S. Auditing Standards, AU section 508 and AICPA Audit and Accounting Guide State and Local Governments, chapter 14) require the auditor's report contain an opinion modification when a departure from generally accepted accounting principles (GAAP) exists.

We noted two instances in which the South Dakota Department of Legislative Audit (the Office) was engaged to audit and report on a primary government only, excluding all legally separate component units. The exclusion results in less than an entire reporting entity presentation which is a departure from GAAP. For these reports, the Office issued an outdated version of the Independent Auditor's Report which only addressed the omission of the component unit in an explanatory paragraph. The current AICPA Audit and Accounting Guide State and Local Governments addresses the Independent Auditor's Report should include a modification of the opinion on the primary government impacted by the omission of a legally separate component unit when the government does not also issue a separate set of audited financial statements for the reporting entity.

2. AICPA standards (AU 623) require that certain information be included in an auditor's report on financial statements prepared in conformity with an other comprehensive basis of accounting (OCBOA). Specifically, AU section 623.05(d) requires that the auditor's report include an explanatory paragraph stating the basis of presentation is a comprehensive basis of accounting other than GAAP. The standard also requires the report identify the basis of presentation, and refer to the notes to the financial statements that describe the basis.

The Office was engaged to audit and report on governments that issue OCBOA financial statements. Two of the reports selected for review identified the financial statements in the introductory and opinion paragraphs of the independent auditor's report as OCBOA financial statements, however, the report did not include the explanatory paragraph required by AU section 623.05(d).

Recommendation– We recommend the South Dakota Department of Legislative Audit (the Office) review and improve their quality control procedures to ensure compliance with all applicable reporting standards.

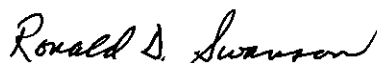
In the attached correspondence dated August 4, 2008, the South Dakota Department of Legislative Audit provided its response to the letter of comments recommendation.

Respectfully submitted,

A handwritten signature in cursive script, reading "Mark Ruether".

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Mark Ruether, Team Leader  
National State Auditors Association  
External Peer Review Team

A handwritten signature in cursive script, reading "Ronald D. Swanson".

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Ronald D. Swanson, Concurring Reviewer  
National State Auditors Association  
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MARTIN L. GUINDON, CPA  
AUDITOR GENERAL

August 4, 2008

Mark Ruether, Team Leader  
Ronald D. Swanson, Concurring Reviewer  
National State Auditors Association  
External Peer Review Team

Dear Messrs. Ruether and Swanson:

This letter represents our response to the letter of comments issued in connection with the South Dakota Department of Legislative Audit's system of quality control for the period June 1, 2007 through May 31, 2008. The matters described in the letter of comments were not considered by the review team to be of sufficient significance to affect the opinion expressed in the peer review report.

Recommendation – We recommend the South Dakota Department of Legislative Audit review and improve their quality control procedures to ensure compliance with all applicable reporting standards.

Response – While we believe our system is adequately designed to ensure that we are complying with auditing standards appropriate to each audit engagement; we did miss including or updating the items referenced in the letter of comments in our internal reviewer's checklist. We will review our procedures and exercise additional diligence to ensure that our internal reviewer's checklist is complete and that we are in compliance with all reporting standards applicable to each engagement.

Sincerely,

Martin L. Guindon  
Auditor General  
Department of Legislative Audit